

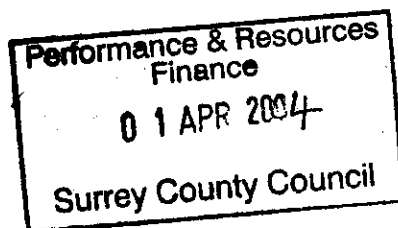


Office of the
Deputy Prime Minister

Creating sustainable communities

J/A PW

Chief Finance Officers of Receiving
Authorities listed in Local
Government PFI Grant Determination
(No 1) 2004 [No 31/20]



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31 March 2004

Dear Sir/Madam

PRIVATE FINANCE INITIATIVE - Grant Payments in 2004/05

I am writing to you as I thought you would be interested in the arrangements for paying PFI grant in 2004/05.

A change to previous years is the lack of a Special Grant Report. Following the introduction of Local Government Act 2003, the ODPM will be using powers under section 31 of that Act to make payments to appropriate authorities. A copy of the relevant determination is enclosed for your information.

With regards to those payments, where special grant was paid in respect of a PFI scheme prior to 1 April 2004, it will not be necessary for authorities to complete a PFISG1. Instead, the ODPM will automatically make payments due in 2004/05. They will be paid in equal installments on or around 30 June 2004, 30 September 2004, 30 December 2004 and 30 March 2005.

The amount of grant payable for the year and for each scheme is shown on the enclosed calculation sheet(s). Please check in advance of the first payment (30 June 2004) that you agree with the amount(s). If you have any queries about the calculation please contact either myself (paul.andrews@odpm.gsi.gov.uk) or my colleague Lily Ghosh (lily.ghosh@odpm.gsi.gov.uk).

If you are an authority that will be claiming PFI grant for the first time in 2004/05 or have a new scheme that becomes live in 2004/05 then a PFISG1 will need to be completed and returned.

Further information on the conditions of PFI grant (including a copy of the PFISG1) can be obtained from the enclosed copy of Local Government PFI Grant Conditions 2004-2005.

Yours faithfully,

Paul Andrews



LOCAL GOVERNMENT PFI GRANT CONDITIONS - 2004-2005

Support to assist with local government expenditure on PFI contracts before 1st April 2004 will be paid under Section 31 of the Local Government Act 2003.

Eligible expenditure will be in respect of individual projects which:

1. Meet the qualifying criteria set out in this document;
2. Have received approval from a central government department which has specified the capital value they are willing to support by issuing the local authority with 'PFI credits'; and
3. Have reached service commencement and where the first payment of fees has been made to the contractor.

This guidance note does not apply to the use of PFI in HRA housing. Such projects will receive revenue support through the HRA subsidy mechanism rather than through Local Government PFI grant.

Annexes to this document are:

Annex A: Qualifying criteria.

Annex B: Calculation of the PFI supported capital value.

Annex C: Calculation of grant which will be paid to each authority.

Annex D: Administrative arrangements to apply for central government support, and for grant.

Annex E: Grant claim form.

Annex F: Explanatory notes.

QUALIFYING CRITERIA

To qualify for PFI support a project must show that it meets the following qualifying criteria (though with some variations for LIFT projects - see www.local.odpm.gov.uk/pfi/lift.pdf).

(1) Accounting Treatment

(1.1) Use of FRS5. A project must be considered a PFI contract under standard accounting requirements. FRS5 provides the basis for determining whether projects should be accounted for as a PFI contract directly within the FRS; or as akin to a lease - when SSAP 21 should be applied. The determination is based on whether or not there is an associated service element which is not independent of payments for the property.

(1.2) Balance sheet treatment. Central Government sponsoring departments will have different budgetary considerations in considering whether they wish to support on or off balance sheet projects. Therefore, although projects may qualify for support whether or not they score on the authority's balance sheet, authorities will need to provide an "initial view" of the accounting treatment on seeking support, as set out in Section 2 of *Technical Note No. 1 (Revised) How to Account for PFI Transactions (June 1999)* available from the Treasury web site. The initial view must be supported by comments from the authority's external auditor as to whether it is reasonable.

(2) Contract

(2.1) PFI contract. A project contract must be based on accepted standardised contract documentation. With the exception only of projects noted in 2.2 below, this will be *Standardisation of PFI Contracts (SoPC)*, as well as recognised sector specific guidance, including Building Schools for the Future contracts and 4ps procurement packs. The version used, and possible agreement to any deviations, should comply with the instructions issued by HM Treasury in conjunction with the latest version of SoPC.

(2.2) NHS LIFT. PFI support can also be given in respect of capital costs incurred under the alternative standard contract documentation used for NHS LIFT projects.

(2.3) Payment mechanism. As a result of following the standard contracts noted above, eligible projects will be structured so that at least some part of any payments will be by annual or more frequent fees which are not paid until services start, and where the level of payment is at least partly determined by performance standards or usage.

(2.4) Risk register. Projects must have supplied an acceptable risk register making a preliminary allocation of all the foreseeable risks associated with the scheme.

(2.5) Indemnity or guarantees. No indemnity or guarantees must be given by the authority to any person in respect of any liabilities of the contractor with whom they enter into the contract (whether those liabilities were incurred in respect of the contract or otherwise), and thus limit the risk exposure of the contractor.

(3) Options Appraisal

(3.1) Project options. Projects must show that they are value for money, firstly in terms of a project scoped to best meet the needs and outputs identified. This will be considered in the context of the benefits typically achieved (including secondary benefits), compared to costs. The methodology used should be in line with the new Treasury guidance *Appraisal and Evaluation in Central Government* (the 'Green Book') which came into effect on 1 April 2003.

(3.2) Procurement options. Value for money must also be shown in relation to the best procurement option. Again, the methodology used should be in line with the Treasury guidance *Appraisal and Evaluation in Central Government* (the 'Green Book'), and with Technical Note 5 *How to construct a Public Sector Comparator*. The comparison of procurement options is not a pass/fail test for PFI but a means of informing judgement, especially if the results are close. It is therefore essential that the underlying assumptions used in the analysis should be explicitly identified, including the level of direct costs, efficiencies predicted and the approach taken to valuing risks to be transferred.

(4) Outputs

(4.1) Output specification. Any project should be specified in terms of service outputs required rather than particular assets or solutions. The specification should be defined broadly to offer scope for efficiencies and innovation; and be pitched at a level that is justifiable as the level which the local authority would specify if using traditional procurement. Any enhancement or betterment included in the output specification should provide greater value for money or other justifiable benefits.

(4.2) Planning and performance framework. Projects must be consistent with and flow from the authority's plans and priorities, including Best Value Performance Plan and Community Strategy, the Capital Strategy and Asset Management Plan and/or the relevant strategic service plan.

(4.3) Sustainable development. Projects must demonstrate an integrated approach to the social, environmental and economic well-being of the area, now and for future generations, in line with the OGC guidance note *Green*

Public Private Partnerships. This covers the promotion of sustainable development in location, design, construction, operation and maintenance.

(4.4) Design quality. Where relevant, projects must contribute to the Government's commitment to achieving "Better Public Buildings". When applying for support that could be demonstrated by the possible appointment of a 'design champion'; involvement of stakeholders; use of Design Quality Indicators (available from Construction Industry Council); use of expert advice on design; and the extent to which design quality will be a key evaluation criteria for bidders. If the project involves construction work and life-cycle maintenance of buildings authorities should demonstrate how they intend to meet, as appropriate, the key objectives of the Egan Report. Authorities are expected to take account of the guidance on design quality in PFI projects available from OGC (*How to achieve Design Quality in PFI Projects*), CABE (*Improving Standards of Design in the Procurement of Public Buildings*, October 2002) and 4ps (*Achieving Quality in Local Authority PFI Building Projects*).

(4.5) Diversity. Any project must take account of diversity issues and any application for support must demonstrate how these have been approached. Authorities will already have their own policies on diversity and their implementation will depend upon the particular scheme. However, obvious examples include addressing the requirements of people who are disabled or whose first language is not English.

(5) Deliverability

(5.1) Sponsorship and support. Projects must have support from all key sponsors (such as Councillors and Senior Officers) and other stakeholders such as School Governors. A project sponsor or 'local champion' who will be sufficiently well placed to promote and pilot the project and drive it to successful implementation should be identified. Typically this would be the Director for the relevant service area or the executive member who has the authority to negotiate and ensure that the project is completed.

(5.2) Affordability. Projects must be affordable to the local authority and the impact on budgets of the part of the projected service payments which the authority will have to meet itself must be accepted by members, senior management and budget holders. Any affordability tests should include sensitivity analysis on factors likely to change, including the level of central government support (eg through a change of interest rate).

(5.3) Commercial interest. A project must be able to show evidence of commercial interest, based either on the authority's own soft market testing or on the experience of other authorities.

(5.4) Project team. A project manager and project team (whether from advisers or in house) with project management experience and the necessary range of skills and experience needs to be demonstrated. A project manager will normally be expected to be involved in the preparation of the outline

business case. A project will also need to demonstrate that suitable arrangements, funding and means of demonstrating value for money are in place for legal, financial and technical advisers. The project will be expected to be accessible to involvement of the 4ps and departments.

(5.6) Statutory processes. The impact of statutory processes such as planning permission, public enquiry etc. on the project must have been considered, and an authority will need to indicate how any potential problems will be resolved in the procurement process.

(5.7) Sharing of Information. The local authority must confirm that they will be ready to share experience and final contract documentation, at no cost, with other local authorities procuring similar projects, with Government departments and with the 4ps. Any information of genuine commercial sensitivity may be withheld – but such material is normally expected to be minimal. Authorities should make clear to potential contractors that this information-sharing requirement is a formal condition imposed by the Government as a condition of support.

CALCULATION PFI CREDITS

A commitment to support is provided by issuing "PFI credits" to a local authority to the (present) value of the capital investment being supported. PFI support is intended to be a contribution towards that element of the contract payments which can be attributed to the capital investment being undertaken - that is, the portion which would have been funded from capital resources if the asset had been procured traditionally, rather than by PFI. It is therefore necessary to calculate the capital value of a project and from that derive the level of support which will be provided.

(1) Initial PFI credits

(1.1) Toolkits. In a number of sectors, including schools and housing, the sponsoring department uses a toolkit to calculate the level of capital support which will be supported. Street lighting projects are based on the difference between the capital costs of the PFI option and the 'do minimum' option over the first 5 years - more detail is available in the 4ps street lighting procurement pack.

(1.2) Capital value. Where a toolkit is not used, the basic capital value of the scheme will represent the upper possible limit of the PFI credits. This can be calculated in one of two ways, which must be agreed with the sponsoring department in advance: (1) Revenue abatement; or (2) Discounted capital expenditure.

(1) Revenue abatement. An estimate of the likely unitary charge - including capital, revenue and financing costs - should be provided in nominal terms. The costs over the length of the contract should be discounted by the prescribed PFI discount rate for the year in which the calculation is done. The result is then abated by a factor agreed with the sponsoring department to exclude revenue costs. For buildings this is 70%.

(2) Discounted capital expenditure. This is particularly appropriate where no revenue abatement has yet been specified or for schemes of a mixed type. An estimate should be made of the year in which capital costs will be incurred by the contractor, again in nominal terms, and these costs discounted using the prescribed PFI discount rate. Capital costs will include lifecycle costs (but not day-to-day maintenance), ICT infrastructure, and a pro-rate proportion of financing costs, SPV costs and set-up costs incurred by the contractor.

(1.3) Prescribed discount rate. The prescribed discount rate for 2004-05 will be 6.6%. This is the same rate as set for the capital financing SSA. Discounting should be calculated using the year in which services commence as the base year (Year 1).

(1.4) Minimisation of support requested. All reasonable opportunities should have been taken to reduce the direct cost of the scheme to the authority. Where it represent value for money and is appropriate for the project, that can include transferring assets with an immediate or potential value to the contractor (or to parties nominated by him). Other ways in which local authorities reduce the need for support are through resulting operating cost savings, third party use of assets and services and other sources of revenue.

(1.5) Optimism bias. Optimism bias should not be applied to the calculation of the capital value.

(1.6) Supported Capital Value. In many cases the PFI credits agreed may be lower than the capital value of the project. Ministers may offer a sum lower than that sought, for example, where several schemes of similar quality cannot all be accommodated within a department's allocation. A number of departments also operate a cap on levels of PFI credits which will be considered.

(1.7) Benchmarking. Sponsoring departments will benchmark capital cost estimates against other similar projects and query the costs if they are out of line. Authorities are advised to do the same and should describe any benchmarking exercises they have undertaken in the OBC.

(1.8) Sensitivity analysis. Authorities will need to carry out some sensitivity analysis to meet the general criteria. It is recognised that, in particular, the discount rate may well have changed by the time that the contract is signed. Authorities are therefore required to do some sensitivity analysis on the effect of likely changes in the interest rate on affordability, and to discuss the results with sponsoring departments before the OBC is endorsed.

(2) Post contract signature changes

Changes may be made to the contract after the PFI credits has been agreed, either before or after services have started.

(2.1) Increases. The most likely change will be one which will increase the capital value of the project. All such changes will be treated as if it they were separate contracts, will be paid using a separate calculation and will use the interest rate in force at the time the increase is agreed.

(2.2) Decreases. A variation may also be agreed which reduces the local authority's costs. This could be due to changes in the service element or financing costs. Neither of these would result in any reduction in support. It is established policy that in the case of refinancing the benefits will be shared on an equal basis between the contractor and the local authority. However the variation could also be because less capital investment has been agreed with the contractor, for example if it became clear that planning permission could not be obtained. This may lead to a reassessment of the PFI credits as set out

in 2.3 below. It should be noted that there would be no reassessment once the assets were delivered and liabilities incurred by the local authority, even if those assets were subsequently destroyed or no longer needed (unless there were exceptional circumstances as set out in 2.4 below).

(2.3) Reassessment. It is intended that reassessment should only be made where the nature of the assets has varied in a "significant" way. The initial estimate of the capital element may be based on fairly broad assumptions and it would not be reasonable to try to make changes at the margins. This could also be seen as unduly restricting the contractor's freedom to innovate in meeting the outputs. Where a single building is involved, a reduction of more than 20% should be notified. A similar scale of reduction in other types of asset should be treated in the same way. Any reassessment of the level of support for any PFI project would be made by the sponsoring department, who should be the first point of contact, and would always be on a scheme-by-scheme basis after considering all the relevant circumstances. The recalculation of the capital value should be done using the current method of discounting to service commencement even if that was not done for the original calculation.

(2.4) Exceptional circumstances. In exceptional circumstances, such as, for example, where continuation of support would unduly enrich or reward a deliberate abuse of the PFI contract, there could be a reassessment even if the capital assets had been delivered. In such a case, however, the Government would expect to take steps to ensure that the local authority was not thereby prevented from meeting in full the resulting liabilities to the PFI contractor and its funders for capital assets already delivered.

(2.4) Recovery. If the PFI credits is reassessed a calculation will be done using the same formula as set out in Annex C. From this the amount of grant actually paid in excess of the amount which would have been paid based on the revised level of PFI credits will be calculated. That will be recovered by deducting the amount from subsequent grant payments. Actual recovery of grant already paid would only be necessary where the excess was larger than could be recovered from future payments.

(2.5) Other changes to the capital element. The overall level of expenditure under the contract may remain the same but there might be a shift from capital to revenue. If that is the case then the sections above on reassessment still apply. It is recognised that this does impose considerations other than strict value for money on the freedom which the contractor has in responding to an output specification. Despite this it is felt important to maintain the principle that capital support should be for capital expenditure. In other cases the nature of the assets may change, eg a change in the number or location, but the overall PFI credits remain about the same. In such circumstances an authority should notify the sponsoring department who will consider whether the alternative proposals are acceptable to them. If they are, support will continue without interruption.

CALCULATION OF GRANT

1. For each authority the amount of grant payable is to be based on the PFI credits agreed with the authority in respect of the PFI project entered into by the authority.
2. An amount of grant will be calculated by reference to the "service commencement date". This is the date when the authority starts receiving the service that is being paid for, not when the first invoice arrives or when the first payment is made.
3. The amount of grant payable to each authority will be the sum of the amounts calculated as follows for each of the authority's supported PFI projects:

$$\text{GRANT} = A + B$$

Where

A (notional interest) = **OPENING BALANCE** x **INTEREST RATE** x **X**

B (notional reduction of the balance) = **OPENING BALANCE** x **0.04** x **X**

4. The following definitions apply for the purposes of this calculation:
 - (a) **OPENING BALANCE** is the value of the initial PFI credits for the transaction less the notional reduction of the balance.
 - (a1) The initial PFI credits for projects endorsed by the Project Review Group (PRG) before 1 April 2004 will normally be the value of the NCA issued. However, for a number of projects the NCA will be increased by the interest rate applying in the year of contract signature for each full financial year of delay between the financial year in which the contract is signed and the financial year in which the service commences (the "uplift"). The projects to be uplifted will be:
 - (i) Those endorsed by PRG before 1 April 2002; and
 - (ii) Those endorsed by PRG after 1 April 2002 but where the NCA was nonetheless calculated by discounting to the date of contract signature rather than the service commencement date.

The values of the uplift factors to be used are shown in the table below:

UPLIFT FACTORS

Year contract signed	Year in which the service commenced the rate			
	2001/02	2002/03	2003/04	2004/05
1997/98	1.291	1.406	1.531	1.668
1998/99	1.184	1.288	1.401	1.525
1999/2000	1.084	1.175	1.274	1.381
2000/01	1	1.079	1.164	1.256
2001/02	1	1	1.075	1.156
2002/03	-	1	1	1.070
2003/04	-	-	1	1
2004/05	-	-	-	-

(a2) The notional reduction of the balance is the sum of all payments of item B made to the authority for services provided before 1 April 2004.

(b) **INTEREST RATE** is the amount given by the following table for the year in which the PFI contract was entered into:

Year of Contract Signature	INTEREST RATE
1997/98	0.089
1998/99	0.088
1999/2000	0.084
2000/01	0.079
2001/02	0.075
2002/03	0.072
2003/04	0.070
2004/05	0.066

In determining the year in which a PFI contract is signed it is noted that commercial and financial close should normally occur at the same time. However, it is recognised that there may be exceptions when this is not possible, for example because of conditions precedent associated with retail lets or judicial review periods. In these cases the agreement of the sponsoring department should be sought as to whether the commercial close date can be considered to be the contract signature date. For this to be agreed all significant terms of the contract must be agreed and any changes, including the results of the conditions precedent, should not significantly alter the contract, for example through altering the risk transfer. The level of PFI credits is set at contract signature so any agreed financial variations, for example to take account of swap rates, which occur after this will need to be covered by the local authority.

(c) X is the amount given by the following table which corresponds with the service commencement date as defined in paragraph 2 above:

Period in which service commencement date falls	X
1 April 1997 to 31 March 2004	1.000
1 April 2004 to 30 April 2004	0.958
1 May 2004 to 31 May 2004	0.875
1 June 2004 to 30 June 2004	0.792
1 July 2004 to 31 July 2004	0.708
1 August 2004 to 31 August 2004	0.625
1 September 2004 to 30 September 2004	0.542
1 October 2004 to 31 October 2004	0.458
1 November 2004 to 30 November 2004	0.375
1 December 2004 to 31 December 2004	0.292
1 January 2005 to 31 January 2005	0.208
1 February 2005 to 29 February 2005	0.125
1 March 2005 to 31 March 2005	0.042

In the first year, therefore the level of support will be pro rata to the number of months during which services are being received.

5. For authorities where the service commencement date falls before 1st April 2004 but no grant was paid under Special Grant Report (No.115), in addition to the grant calculated using the factors set out above, an amount of grant will also be paid under this Report to cover the period before 1st April 2004 using the formula and factors set out in Annex B to Special Grant Report (No.115).
6. For the Greater London Authority, the amount of grant payable is to be based on the contract signed by the London Fire and Emergency Planning Authority.
7. For Gloucestershire County Council, the amount of the grant payable is to be based on the contract signed by the Avon Fire Authority, the Gloucestershire Fire Authority and the Somerset Fire Authority.

ADMINISTRATIVE ARRANGEMENTS

(1) Applying for PFI Support

(1.1). First Approach. The procedures for applying for central government support vary between departments. Some hold annual bidding rounds, whilst others will assess proposals submitted at any time. Local authorities should check on the procedures at an early stage. Once submitted, though, departments will make an initial appraisal and, on the basis of that, will decide whether to submit the project to the inter-departmental Project Review Group (PRG). Before the project can proceed to procurement it needs the endorsement of the PRG that the case is sufficiently developed to take this step (but see 1.5 Below).

(1.2) Programmes of Projects. Applications for a programme of projects may be considered by departments and PRG. Each project would continue to have to meet all of the criteria, although assessment would not follow the normal route. An authority submitting a programme of projects should take particular note of the advice in paragraph 1.5 on early informal discussions.

(1.3) Outline Business Case. In all cases, departments need at least the authority's clear statement of the way in which each of the general and specific Criteria has been addressed as part of the business planning process. Subject to that, formal applications for credits should be submitted as an Outline Business Case (OBC). Departments may differ in the level of detail they require and the extent to which they wish to see documentary evidence to support the statements in the OBC. These requirements should be ascertained early on. However, OBCs should be as concise as possible. Authorities are advised to take account of the advice in the 4ps publication *Options Appraisal and the Outline Business Case*.

(1.4) Criteria Checklist. The OBC should always include as an Appendix a checklist indicating the paragraph numbers in the main documentation where information on each of the Qualifying Criteria (as at Annex A) and any sector specific criteria is to be found. This will help authorities to ensure that all points have been covered and assist departments and the PRG when processing applications.

(1.5) Timetable. A timetable should be prepared covering all stages from submission of the initial proposal to start of service provision. In particular a realistic deadline should be proposed to reach contract signature. The stages of the procurement process should be kept to a minimum consistent with achieving value for money.

(1.6) NHS LIFT projects. Procedures for applying for support when taking out a leaseplus agreement with a LIFT Company vary in a number of ways. They do not need to be endorsed by PRG and some of the qualifying criteria

vary. A separate note on this is available from the ODPM at www.local.odpm.gov.uk/pfi/lift.pdf.

(1.7) Informal Enquiries. To reduce the risk of abortive work, authorities are recommended to discuss their proposals with the 4ps and the department concerned at an early stage. They should obtain an early indication of the realism of a project, which may involve soft market testing, and an assessment of the prospects for funding (particularly for a programme of projects with the implicit uncertainties over funding requirements). Authorities should, however, appreciate that no commitment on revenue support can ever be given until a scheme has been formally approved by Ministers and endorsed by the PRG.

(2) Applying for PFI Grant

(2.1) Timing of payments. The amount of grant payable to an authority shall be calculated separately for each private finance transaction. For each transaction grant shall be paid as follows:

(a) where the authority has been paid previously for that project, grant shall normally be paid by four equal quarterly instalments.

(b) where the service commencement date falls in a prior financial year, but where the authority has not been paid grant for that project previously, an initial grant payment will be made as soon as possible in 2004/05 in respect of the prior financial year - the timing of that payment will depend on the date when the claim form is received. Subsequent payments will normally be paid by equal quarterly instalments. The number of instalments and timing of the first instalment will depend on the date when the claim form is received.

(c) where the service commencement date falls between 1 April 2004 and 12 March 2005, the grant shall be paid by equal quarterly instalments depending on the quarter in which that date falls. The number of instalments and timing of the first instalment will depend on the date when the claim form is received. A claim for first payment in any quarter should be made at least 3 weeks before the end of the quarter in question.

(2.2) Claim forms. Authorities only need to complete a claim form for projects which have not claimed grant previously. A statement showing the amount of grant due in 2004/05 for projects which have attracted previous support will be sent to relevant authorities before the first payment is due. Any queries relating to these statements should be addressed to the contacts at the bottom of this guidance note. The payment of grant for new projects shall be conditional on the receipt by the Secretary of State of a valid claim. A valid claim is one which is made on the form PFISG1 signed by the authority's Chief Finance Officer. The PFISG1 is at Annex E and can also be printed from the ODPM website at www.local.odpm.gov.uk/pfi/sq.htm. Once a claim

has been accepted, the ODPM will notify the authority and will confirm the amounts of grant and the dates on which each instalment will be paid. Authorities should keep copies of all completed PFISG1s as these will be required to accompany the PFISG2 grant audit form at the end of the year.

(2.3) Overpayments. Where an overpayment has been made the Secretary of State shall specify such an amount due to him by notice in writing given to the authority, and the amount of grant payable under this Report shall be adjusted by the amount within the period for payment specified in the notice. If the amount of the overpayment exceeds the amount of grant payable to the authority in 2004/05, an adjustment will be made to the amount of grant payable in future years.

PFISG1(2004/05)**LOCAL GOVERNMENT PRIVATE FINANCE INITIATIVE –
CLAIM FORM FOR GRANT IN 2004/05**

Local Authority:	
Sponsoring Department:	
PFI Project Name:	
Date of Contract Signature:	
Actual date services started ("service commencement date" – see Annex C, paragraph 2)	

CONTACT DETAILS

Please give details of the officer who may be contacted in case of any queries:

Name:	Telephone: Fax:
Address:	
E-mail:	

A. PFI credits - see Annex C, paragraph 4(a):

£

B. Uplift factor (if appropriate) - see Annex C, paragraph 4(a):

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C. Opening balance = A x B

£

D. Value of INTEREST RATE - see Annex C, paragraph 4(b):

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E. Value of factor 'X' - see Annex C, paragraph 4(c)

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F. Item A (notional interest) = $C \times D \times E$ - see Annex C, paragraph 3:

£

G. Item B (notional reduction of the balance) = $C \times 0.04 \times E$ - see Annex C, paragraph 3:

£

H. Grant claimed = $F + G$

£

I certify that:



- a) the contract is a PFI transaction under proper accounting practice;
- b) the contractor commenced providing the service to the authority under the contract on the date given above;
- c) the contract is on terms not departing significantly from those agreed with the sponsoring Government Department when support was agreed;
- d) the information given on this form is correct, and has been determined in accordance with the terms set out in the ODPM Local Government PFI Grant paper for 2004-05.

Signed:

(Chief Finance Officer)

Print Name:

Date:

This claim form should be sent to:

Paul Andrews, Office of the Deputy Prime Minister
LGF4, Zone 5/H3, Eland House, Bressenden Place, London SW1E 5DU.

For queries about the completion of this form, please contact either:

Paul Andrews: Tel. 020 7944 4244 (E-mail: paul.andrews@odpm.gsi.gov.uk)
or Lily Ghosh: Tel: 020 7944 4243 (E-mail: lily.ghosh@odpm.gsi.gov.uk)

EXPLANATORY NOTES

1. The Private Finance Initiative (PFI) enables local authorities to enter into a contract with the private sector for the provision of services involving new or improved capital assets. Prior to 1 April 2004 a contract had to meet the criteria in Regulation 16 of the Local Authorities (Capital Finance) Regulations 1997 (S.I. 1997/319 as amended) to be a private finance transaction. No equivalent regulation will exist under the prudential capital finance system, implemented by the Local Government act 2003, which will come into force on 1 April 2004.
2. However support will continue to be allocated to PFI projects. The requirements of the old Regulation 16 will all continue to be included in the qualifying criteria, including the requirement that the project will be treated as PFI under standard accounting practice and that the contract will be based on accepted contract documentation.
3. The legal basis for paying PFI grant will change. Grant will no longer be made under the Special Grant power requiring Parliamentary approval. From 2004-05, grant will be paid under section 31 of the Local Government Act 2003. One practical effect of this is that it is not necessary to list those local authorities which will be paid in the year.
4. Section 49 of the Local Government & Housing Act 1989 set out a formula as to how the value of a credit arrangement should be determined. This has been used as the basis for calculating PFI support. Under the prudential system credit arrangements will be calculated using accounting practice. For PFI, though, the formula used in previous years will continue to apply.
5. To calculate the value of credit arrangements a discount rate was published each year in the Local Authorities (Capital Finance)(Rate of Discount) Regulations each year. That will not be necessary under the prudential system, and a specified PFI discount rate therefore becomes necessary. The discount rate was always set to mirror the Capital Financing notional pool rate of interest used in determining the Capital financing element of Revenue Support Grant, and this will continue to be the case in 2004-05.
6. The terms 'Notional Credit Approval' and 'Non Supported Credit Approval' will no longer be used in relation to PFI support. The prudential system of capital finance does not include any system of credit approvals. However the term 'PFI credit' will be retained since most practitioners are familiar with that.
7. The method of calculating PFI support will not be changed in 2004-05. Any changes from Special Grant Report (No.115) are minor.



The LOCAL GOVERNMENT PFI GRANT DETERMINATION (No 1) 2004 [No 31/20]

The Parliamentary Under Secretary of State ("The Parliamentary Under Secretary"), in exercise of the powers conferred on him by section 31 of the Local Government Act 2003, hereby makes the following determination:-

Citation

- 1) This determination may be cited as the Local Government PFI Grant Determination (No1) 2004 [No 31/20].

Purpose of the grant

- 2) The purpose of the grant is to provide support to certain authorities in England towards expenditure lawfully incurred by them.

Determination

- 3) The Parliamentary Under Secretary determines as the authorities to which grant is to be paid, the "receiving authorities", the authorities set out in Annex A and that the amount of grant to be paid to each authority will be calculated in accordance with the methodology set out in Annex B.

Treasury consent

- 4) Before making this determination, the Parliamentary Under Secretary obtained the consent of the Treasury.

Grant conditions

- 5) Pursuant to section 31(3) and 31(4) of the Local Government Act 2003, the Parliamentary Under Secretary determines that the grant will be paid subject to the conditions set out in Annex C.

Signed by authority of the Parliamentary Under Secretary

A senior civil servant within the Office of the Deputy Prime Minister

29 March 2004

RECEIVING AUTHORITIES

Amber Valley Borough Council
The Council of the London Borough of Barking and Dagenham
Bassetlaw District Council
Bedfordshire County Council
The Council of the London Borough of Bexley
Birmingham City Council
Breckland District Council
Bolton Metropolitan Borough Council
Bournemouth Borough Council
The Council of the London Borough of Brent
Brighton and Hove Council
Calderdale Metropolitan Borough Council
The Council of the London Borough of Camden
Cambridgeshire County Council
Cheshire County Council
Cheshire Police Authority
Cleveland Police Authority
Copeland Borough Council
Cornwall County Council
Coventry City Council
The Council of the London Borough of Croydon
Cumbria Police Authority
Derby City Council
Derbyshire County Council
Derbyshire Police Authority
Devon County Council
Dorset County Council
Dorset Police Authority
Dudley Metropolitan Borough Council
The Council of the London Borough of Ealing
East Riding of Yorkshire Council
East Sussex County Council
The Council of the London Borough of Enfield
Essex County Council
East London Waste Authority (ELWA)
Gloucestershire County Council
The Greater Manchester Fire & Civil Defence Authority
Greater Manchester Police Authority
The Council of the London Borough of Greenwich
The Council of the London Borough of Hackney
The Council of the London Borough of Hammersmith and Fulham
Hampshire County Council
The Council of the London Borough of Haringey
The Council of the London Borough of Harrow
County of Herefordshire District Council
The Council of the London Borough of Hillingdon

Isle of Wight Council
 The Council of the London Borough of Islington
 Kent County Council
 Kingston-upon-Hull City Council
 Kirklees Metropolitan Borough Council
 The Council of the London Borough of Lambeth
 Lancashire County Council
 Lancashire Fire and Rescue Services
 Leeds City Council
 Leicester City Council
 The Council of the London Borough of Lewisham
 Lincolnshire County Council
 Liverpool City Metropolitan District Council
 The Greater London Authority
 Manchester City Council
 The Council of the London Borough of Merton
 Newcastle-upon-Tyne City Council
 The Council of the London Borough of Newham
 Norfolk County Council
 Norfolk Police Authority
 Northamptonshire County Council
 North East Derbyshire District Council
 North East Lincolnshire Council
 North Lincolnshire Council
 North Tyneside Metropolitan Borough Council
 North Wiltshire District Council
 North Yorkshire County Council
 North Yorkshire Fire and Rescue Authority
 Northumbria Police Authority
 Norwich City Council
 Nottingham City Council
 Nottinghamshire County Council
 Nottinghamshire Police Authority
 Penwith District Council
 Portsmouth City Council
 The Council of the London Borough of Redbridge
 Redcar and Cleveland Borough Council
 The Council of the London Borough of Richmond upon Thames
 Rotherham Metropolitan Borough Council
 Sandwell Metropolitan Borough Council
 Sefton Metropolitan Borough Council
 Selby District Council
 Sheffield City Council
 Shepway District Council
 Southampton City Council
 South Gloucestershire District Council
 Staffordshire County Council
 Stockton-on-Tees Borough Council
 Stoke-on-Trent City Council
 Sunderland City Council

Surrey County Council
Sussex Police Authority
Swindon Borough Council
Tameside Metropolitan District Council
Thames Valley Police Authority
Torbay Council
The Council of the London Borough of Tower Hamlets
Trafford Metropolitan Borough Council
Tyne and Wear Fire and Civil Defence Authority
Uttlesford District Council
Wakefield Metropolitan District Council
Walsall Metropolitan Borough Council
The Council of the London Borough of Waltham Forest
Warrington Borough Council
The Council of the City of Westminster
West Berkshire District Council
West Sussex County Council
Wiltshire County Council
Wiltshire Police Authority
Wirral Metropolitan District Council
Wolverhampton City Council
Worcestershire County Council

CALCULATION OF GRANT

1. For each authority listed in Annex A, the amount of grant payable is to be based on the PFI credits agreed with the authority in respect of the PFI project entered into by the authority.
2. An amount of grant will be calculated by reference to the “service commencement date”. This is the date when the authority starts receiving the service that is being paid for under the private finance transaction, not when the first invoice arrives or when the first payment is made.
3. The amount of grant payable to each authority will be the sum of the amounts calculated as follows for each of the authority’s supported PFI projects:

$$\text{GRANT} = A + B$$

Where:

A (notional interest) = **OPENING BALANCE x INTEREST RATE x X**

B (notional reduction of the balance) = **OPENING BALANCE x 0.04 x X**

4. The following definitions apply for the purposes of this calculation:
 - (a) **OPENING BALANCE** is the value of the initial PFI credits for the transaction ((a1) below) less the total notional reduction of the balance to date ((a2) below).

(a1) The *initial PFI credits* for projects endorsed by the Project Review Group (PRG) before 1 April 2004 will normally be the value of the Notional Credit Approval (“NCA”) issued. However, for a number of projects the NCA will be increased by the interest rate applying in the year of contract signature for each full financial year of delay between the financial year in which the contract is signed and the financial year in which the service commences (the “uplift”). The projects to be uplifted will be:
 - (i) Those endorsed by PRG before 1 April 2002; and
 - (ii) Those endorsed by PRG after 1 April 2002 but where the NCA was nonetheless calculated by discounting to the date of contract signature rather than the service commencement date.

The values of the uplift factors to be used are shown in the table below:

Year contract signed	Year of service commencement			
	2001/02	2002/03	2003/04	2004/05
1997/98	1.291	1.406	1.531	1.668
1998/99	1.184	1.288	1.401	1.525
1999/2000	1.084	1.175	1.274	1.381
2000/01	1	1.079	1.164	1.256
2001/02	1	1	1.075	1.156
2002/03	-	1	1	1.070
2003/04	-	-	1	1

(a2) The *total notional reduction of the balance to date* is the sum of all payments of item B made to the authority before 1 April 2004.

(b) **INTEREST RATE** is the amount given by the following table for the year in which the PFI contract was signed:

Year of Contract Signature	Interest Rate
1997/98	0.089
1998/99	0.088
1999/2000	0.084
2000/01	0.079
2001/02	0.075
2002/03	0.072
2003/04	0.070
2004/05	0.066

(c) **X** is the amount given by the following table which corresponds with the service commencement date as defined in paragraph 2 above:

Period in which service commencement date falls	X
1 April 1997 to 31 March 2004	1.000
1 April 2004 to 30 April 2004	0.958
1 May 2004 to 31 May 2004	0.875
1 June 2004 to 30 June 2004	0.792
1 July 2004 to 31 July 2004	0.708
1 August 2004 to 31 August 2004	0.625
1 September 2004 to 30 September 2004	0.542
1 October 2004 to 31 October 2004	0.458
1 November 2004 to 30 November 2004	0.375
1 December 2004 to 31 December 2004	0.292
1 January 2005 to 31 January 2005	0.208
1 February 2005 to 29 February 2005	0.125
1 March 2005 to 31 March 2005	0.042

In the first year of the project the level of support will be pro rata to the number of months for which services are being received.

5. For authorities where the service commencement date falls before 1st April 2004 but no grant was paid under Special Grant Report (No.115), in addition to the grant calculated using the factors set out above, an amount of grant will also be paid under this Report to cover the period before 1st April 2004 using the formula and factors set out in Annex B to Special Grant Report (No.115).
6. For the Greater London Authority, the amount of grant payable is to be based on the contract signed by the London Fire and Emergency Planning Authority.
7. For Gloucestershire County Council, the amount of the grant payable is to be based on the contract signed by the Avon Fire Authority, the Gloucestershire Fire Authority and the Somerset Fire Authority.

GRANT CONDITIONS

1) In this Annex:

“the PFI project” means a PFI project:

- a) which meets the criteria set out in Section A (“Qualifying Criteria”) of the Guidance issued by the Office of the Deputy Prime Minister entitled “PFI project support - A Guide (2004)”;
- b) which has received PFI credits from a central government Department;
- c) which has reached service commencement by the date of this Determination; and
- d) in relation to which the first payment of fees to the contractor has been made.

2) Grant will be paid on condition that either:

- a) the authority received grant under Special Grant Report No (115) in respect of the PFI project in the financial year beginning on 1 April 2003; or
- b) the Parliamentary Under Secretary has received a valid claim submitted by the authority in respect of the PFI project. A valid claim is one which is made on a form issued by the Parliamentary Under Secretary and which is signed by the authority’s Chief Finance Officer.

3) If an authority fails to comply with any of these conditions or if an overpayment is made under this grant or any amount is paid in error, the Parliamentary Under Secretary may require the repayment of the whole or part of the grant monies paid, as may be determined by the Parliamentary Under Secretary and notified in writing to the authority. Such sum as has been notified shall immediately become repayable to the Parliamentary Under Secretary.

**Authoritiy
Project**

Surrey County Council
Residential Homes

The following calculation is an estimate of the amount of PFI Revenue Support due to your authority, for the above project, in 2004/05. If you have any queries, please contact: Lily Ghosh on 020 7944 4243 or Paul Andrews on 020 7944 4244.

Financial Year 2003/04 (for historic information only)	
A Opening balance for 2002/03	24,483,163.57
B Special Grant Item B for 2002/03	1,497,940.54
C Opening balance for 2003/04 (A + B)	25,981,104.11
D Interest Rate	0.089
E Special Grant Item A for 2003/04 (C x D)	2,092,008.53
F Special Grant Item B for 2003/04 (C x 0.04)	1,039,226.43
G Total Special Grant for 2003/04 (E + F)	3,131,234.96

Financial Year 2004/05

H Opening balance for 2004/05 (C - F)	22,565,434.59
I Interest Rate	0.089
J Special Grant Item A for 2004/05	2,008,323.68
K Special Grant Item B for 2004/05	902,617.384
L Total Special Grant for 2004/05 (J + K)	2,910,941.062 ✓

Quarterly Payment Details	Amount
30-Jun-2004	727,735.265
30-Sep-2004	727,735.265
30-Dec-2004	727,735.265
30-Mar-2005	727,735.265

E-mail: russell.smith@surreycc.gov.uk

**Authoritiy
Project**

Surrey County Council
Waste Disposal

The following calculation is an estimate of the amount of PFI Revenue Support due to your authority, for the above project, in 2004/05. If you have any queries, please contact: Lily Ghosh on 020 7944 4243 or Paul Andrews on 020 7944 4244.

Financial Year 2003/04 - for historic information only	
A Opening balance for 2002/03	76,926,380.00
B Special Grant Item B for 2002/03	1,307,422.40
C Opening balance for 2003/04 (A + B)	78,233,802.40
D Interest Rate	0.084
E Special Grant Item A for 2003/04 (C x D)	6,583,184.80
F Special Grant Item B for 2003/04 (C x 0.04)	3,129,552.10
G Total Special Grant for 2003/04 (E + F)	9,712,736.90

Financial Year 2004/05

H Opening balance for 2004/05 (C - F)	70,895,056.90
I Interest Rate	0.084
J Special Grant Item A for 2004/05	5,955,184.78
K Special Grant Item B for 2004/05	2,835,802.276
L Total Special Grant for 2004/05 (J + K)	8,790,987.055 ✓

Quarterly Payment Details	Amount
30-Jun-2004	2,197,746.764
30-Sep-2004	2,197,746.764
30-Dec-2004	2,197,746.764
30-Mar-2005	2,197,746.764

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